

## Message Text

CONFIDENTIAL

PAGE 01 TEL AV 04069 01 OF 02 191543Z

51

ACTION NEA-16

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TO SECSTATE WASHDC 3207

C O N F I D E N T I A L SECTION 1 OF 2 TEL AVIV 4069

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E O 11652: GDS

TAGS: OVIP (SIMON, WILLIAM E.)

SUBJECT: SECRETARY SIMON'S MEETING WITH FOREIGN MINISTER ALLON

1. FOLLOWING REPORT OF CONVERSATION IS UNCLEARED AND SUBJECT TO CHANGE AFTER REVIEW BY SIMON PARTY.

2. SUMMARY: IN JULY 17 MEETING IN JERUSALEM WITH DEPPRIMIN/FONMIN ALLON, SECRETARY SIMON REVIEWED HIGHLIGHTS OF HIS VISIT TO EGYPT, NOTING GOE RECOGNIZED NEED FOR ECONOMIC DEVELOPMENT, IMPORTANT ROLE FOREIGN INVESTMENT WOULD PLAY THEREIN, AND, ABOVE ALL, NEED AND DESIRE FOR PEACE. WHILE ACKNOWLEDGING THAT CLOSER U.S. AEGYPTIAN ECONOMIC RELATIONS WERE ALSO IN ISRAEL'S INTERESTS, ALLON EXPRESSED CONCERN THAT EGYPT HAD NOT GIVEN UP MILITARY OPTION, AS EVIDENCED BY CONTINUED EGYPTIAN MILITARY BUILDUP. ALLON SAID THAT ISAREL HAD NO ALTERNATIVE BUT TO PURSUE PATH OF PEACE WHILE AT SAME TIME PREPARING ITSELF FOR WAR WITH BEST POSSIBLE WEAPONS AVAILABLE. ALLON ADDED THAT FOR THERE TO BE FURTHER MOVEMENT TOWARD PEACE, ARABS MUST END THEIR ECONOMIC WARFARE AGAINST ISRAEL. HE ALSO MADE PITCH FOR JOINT ECONOMIC DEVELOPMENT PLANS BETWEEN ISRAEL ADND THE ARABS AS A TANGIBLE SIGN OF ARAB COMMITMENT TO PEACE. IN RESPONSE. SECRETARY SIMON CONCURRED WITH ALLON'S COMMENTS ON INTERRELATIONSHIP BETWEEN POLITICS AND ECONOMICS ALONG ROAD TO PEACE BUT SAID HE WAS NOT OPTIMISTICIC THAT ARABS AT THIS POINT IN TIME WOULD ACCEPT ISRAEL AS A REGIONAL PARTNER. ALLON

CONFIDENTIAL

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PAGE 02 TEL AV 04069 01 OF 02 191543Z

REPEATED STANDARD ISRAELI POSITION RE NO NEGOTIATIONS WITH PLO

AND ALSO ADDRESSED OIL CRISIS, STATING THAT SOME PEOPLE WERE PRONE TO BLAME ISRAEL FOR THIS PROBLEM. SECRETARY REVIEWED LATTER PROBLEM FOR ALLON, NOTING IN CONCLUSION THAT IT WAS HIS VIEW THAT OIL PRICES WOULD DECREASE IN COMING MONTHS ON ASSUMPTION THAT CURRENT PRODUCTION WAS NOT CURTAILED. END SUMMARY.

3. AFTER THE INITIAL WELCOMING REMARKS, DEPUTY PRIMIN/FONMIN ALLON ASKED SECRETARY SIMON FOR HIS IMPRESSIONS OF HIS VISIT TO EGYPT, NOTING THAT THERE WAS HIGH INTEREST IN ISRAEL IN EGYPTIAN DEVELOPMENTS.

4. SECRETARY SIMON PREFACED HIS REMARKS BY NOTING THAT HE WAS A NEWCOMER TO EGYPT AND THE MID EAST AND THAT HE HAD A CERTAIN NUMBER OF PRECONCEIVED NOTIONS CONCERNING THE ECONOMIC SCENE IN EGYPT IN VIEW OF THE FACT THAT EGYPT'S ECONOMY WAS COMPLETELY CONTROLLED BY THE GOVT. HE WAS, THEREFORE, THROUGLHY PREPARED TO TAKE THE INITIATIVE TO URGE ON THE EGYPTIANS THE NEED FOR LIBERALIZATION RE CONDITIONS FOR FOREIGN INVESTMENT IN THE INTEREST OF STIMULATING ECONOMIC DEVELOPMENT. HE WAS, THREFORE, MOST PLEASANTLY SURPRISED TO HAVE THE EGYPTIANS, IN FACT TAKE HIS INTENDED WORDS RIGHT OUT OF HIS MOUTH. HE NOTED THAT TREMENDOUS RECOGNITION IN EGYPT WITH RESPECT TO THE NEED FOR ECONOMIC DEVELOPMENT, THE CONCOMITANT RECOGNITION OF THE IMPORTANT ROLE OF FOREIGN INVESTMENT, AND, ABOVE ALL, THE NEED FOR PEACE. THE SECRETARY NOTED IN THIS RESPECT THE IMPORTANT RELATIONSHIP BETWEEN INVESTMENT AND DEVELOPMENT AND THE ACHIEVEMENT OF PRESIDENT NIXON'S HOPE FOR THE CREATION OF LASTING PEACE IN THE MID EAST.

5. IN ANSWER TO A QUESTION FROM ALLON, THE SECRETARY NOTED THAT EGYPT WAS NOT LIBERALIZING ITS ENTIRE ECONOMY, RATHER IT WAS TAKING IMPORTANT STEPS IN ORDER TO ATTRACT FOREIGN INVESTMENT. HE AGREED THAT FURTHER LIBERALIZATION WAS DESIRABLE BUT BELIEVED THAT IT WOULD HAVE TO COME AT A LATER STAGE BECAUSE OF THE PARTICULAR CIRCUMSTANCES OF THE EGYPTIAN DOMESTIC ECONOMY. ALLON ASKED ABOUT SOVIET ECONOMIC ACTIVITY IN EGYPT. THE SECRETARY REPLIED THAT HIS IMPRESSION WAS THAT IT WAS MINIMAL. ALLON THEN ASKED IF THIS WAS DUE TO THE DESIRE OF THE EGYPTIANS, AND THE SECRETARY REPLIED IN THE AFFIRMATIVE. ALLON EXPRESSED CONFIDENTIAL

CONFIDENTIAL

PAGE 03 TEL AV 04069 01 OF 02 191543Z

HIS GRATITUDE FOR THE SECRETARY'S PRESENTATION.

6. ALLON THEN NOTED THAT HE WOULD IN HIS REMARKS TRY TO AVOID DUPLICATION OF WHAT THE SECRETARY HAD HEARD EARLIER IN THE DAY FROM THE PRIMIN AND OTHERS; NOR WOULD HE ATTEMPT TO DUPLICATE WHAT WOULD BE COVERED IN THE NEXT DAY'S MEETING WITH THE DEFENSE MINISTER PERES. HE THEN DESCRIBED THE CONCERN OF ISRAEL OVER THE "CONTRADICTIONS" OVER WHAT THE

ARABS SAY AND WHAT THEY ACTUALLY DO. AS CONCERNS EGYPT, HE REMARKED THAT THE COMBINATION OF DEVELOPING U.S. ECONOMIC RELATIONS (WHICH HE SUPPORTED AS ALSO IN ISRAEL'S INTERESTS), ARAB OIL MONEY AND SOVIET WILLINGNESS TO SUPPLY ARMS, ALLOWED THE EGYPTIANS TO DEVELOP THEIR COUNTRY ECONOMICALLY AND AT THE SAME TIME CONSIDERABLY TO STRENGTHEN THE EGYPTIAN ARMED FORCES WHICH POSED A SERIOUS THREAT TO ISRAEL. HE STATED THAT ISRAEL'S GREAT CONCERN WAS THAT, DESPITE DISENGAGEMENT, THE EFFORTS OF THE U.S. AND THE HOPES FOR THE FUTURE, SYRIA AND EGYPT CLEARLY HAVE NOT GIVEN UP THE MILITARY OPTION, A FACT WHICH IS EVIDENT BY THEIR CONTINUED MILITARY BUILD-UP. HE ADDED THAT IT WAS NOT CLEAR IF THE ARAB AIM WAS TO PRESSURE ISRAEL TO MAKE FURTHER CONCESSIONS QUICKLY OR TO BE IN THE BEST POSITION TO INITIATE HOSTILITIES IF DEVELOPMENTS DO NOT "MOVE FAST ENOUGH FOR THEM." REGARDLESS OF THE REAL ARAB AIM, THE GOI IS FORCED TO DIVERT HEAVY RESOURCES TO ARMS IN ORDER TO BE PREPARED FOR THE WORST. (HE NOTED THAT PERES WOULD GO INTO DETAILS ON THIS SUBJECT TOMORROW.)

7. AS CONCERNS ARAB INTENTIONS, ALLON STATED THAT HE REALIZED THAT AT LEAST SOME EGYPTIAN AND SYRIAN LEADERS WERE AWARE THAT, DESPITE THEIR PROPAGANDA, IF THE OCTOBER WAR HAD GONE ON FOR ANOTHER WEEK OR SO, ARAB ARMIES WOULD HAVE BEEN COMPLETELY DESTROYED, ALTHOUGH AT A COST TO ISRAEL. THE GOI ACCEPTED THE CEASEFIRE BECAUSE OF THE U.S. "INVOLVEMENT" AND THE HOPE THAT THE ARABS MIGHT BE WILLING TO NEGOTIATE A POLITICAL SETTLEMENT WITH ISRAEL IF THEIR ARMIES WERE NOT COMPLETELY DESTROYED. ISRAEL CONTINUED TO HOPE THAT THE PROCESS WHICH BEGAN WITH THE CEASEFIRE WOULD INDEED LEAD TO TRUE PEACE.

8. ALLON TURNED TO THE POSSIBILITY OF WAR AND SAID HE EMPHATICALLY REBUTTED THE VIEW THAT DUE TO TECHNOLOGICAL IMPROVEMENT IN WEAPONS SYSTEMS, GEOGRAPHY WAS NO LONGER AN IMPORTANT FACTOR

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TEL AV 04069 01 OF 02 191543Z

IN THE DEFENSE OF ISRAEL ON THE CONTRARY, HE STATED, TERRAIN WAS STILL IMPORTANT FOR THE STRATEGIC DEFENSE OF ISRAEL AND PERHAPS IN SOME RESPECTS, NEW WEAPONS SYSTEMS MADE CERTAIN TERRAIN MORE IMPORTANT THAN BEFORE.

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 TEL AV 04069 02 OF 02 191659Z

51

ACTION NEA-16

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TO SECSTATE WASHDC 3208

C O N F I D E N T I A L SECTION 2 OF 2 TEL AVIV 4069

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9. ALLON STATED THAT HE AND ISRAELIS IN GENERAL WERE VERY HAPPY TO HEAR FROM PRESIDENT NIXON IN JUNE THAT A STRONG ISRAEL WAS IMPORTANT TO PEACE. HE ADDED THAT ISRAEL HAS NO ALTERNATIVE, UNDER THE CIRCUMSTANCES, BUT TRY TO DEVELOP ITSELF FOR PEACE WHILE AT THE SAME TIME PREPARING FOR WAR WITH THE BEST POSSIBLE WEAPONS AS ITS ONLY AVAILABLE COUNTER TO ARAB NUMERICAL SUPERIORITY. HAVING SAID THIS, HE EMPHASIZED THAT HE DOES NOT BELIEVE THAT WAS INEVITABLE AND MADE CLEAR THAT ISRAEL WOULD DO ITS BEST TO AVOID WAR, TO SAVE LIVES AND TO TRY TO FIND A POLITICAL SOLUTION TO ITS PROBLEMS WITH ITS ARAB NEIGHBORS.

10. ALLON THEN NOTED, HOWEVER, THAT POLITICAL EFFORTS ARE NOT THE ONLY MEANS TO POLITICAL ENDS. ECONOMIC EFFORTS WERE ALSO MOST IMPORTANT. REFERRING TO THE SECRETARY'S COMMENTS ON EGYPT, HE WAS MOST HAPPY TO LEARN THAT THE EGYPTIANS WERE SERIOUS ABOUT ECONOMIC DEVELOPMENT AND ISRAEL HOPED THIS IN PARTICULAR WILL HOLD PROMISE FOR FUTURE MOVES TOWARD PEACE.

11. ALLON CONTINUED THAT ONE GOI CONDITION FOR FURTHER MOVEMENT TOWARD PEACE IS FOR AN END BY THE ARABS OF THEIR ECONOMIC WAR TOWARD ISRAEL INCLUDING THEIR ECONOMIC BOYCOTT AND OF ARAB EFFORTS TO FRIGHTEN U.S. INVESTMENT AWAY FROM ISRAEL. HE THEN EXPANDED UPON RABIN'S EARLIER COMMENTS ON THE ROLE OF ECONOMICS IN THE SEARCH FOR PEACE IN THE MID EAST, ALLON REFERRED TO THE NEED FOR REGIONAL ECONOMIC DEVELOPMENT PLANS WHICH WOULD BE IN THE INTERESTS OF ALL MID EAST NATIONS. IN THIS RESPECT, HE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 TEL AV 04069 02 OF 02 191659Z

HOPED TO BRING SOME SPECIFIC IDEAS TO THE U.S. FOR HIS MEETINGS WITH SECRETARY KISSINGER AT THE END OF JULY. ALLON NOTED THAT "MANY POSITIVE UNEXPECTED DEVELOPMENTS" COULD RESULT FROM JOINT ECONOMIC PROJECTS BETWEEN ISRAEL AND THE ARABS-- ALL OF WHICH WOULD HELP TO PUT SUBSTANCE INTO THE SEARCH

FOR PEACE. SUCH COOPERATION, HE SAID, WOULD BE FOR ISRAEL THE TANGIBLE SIGNS OF ARAB COMMITMENT TO PEACE RATHER THAN A COMMITMENT TO TACTICS DESIGNED TO PUT THEM IN A POTENTIALLY BETTER POSITION FOR INITATING NEW WARS.

12. AGAIN REFERRING TO EGYPT, ALLON SAID ISRAEL WAS HAPPY ABOUT THE PLANS FOR A FREE PORT WHICH WOULD HELP EGYPT AND ITS TRADE PARTNERS AS WELL. HE RECALLED A LONGSTANDING PLAN FOR A FREE TRADE AREA IN HAIFA WHICH ISRAEL BELIEVE COULD BE DEVELOPED IN COOPERATION WITH JORDAN, AT LEAST IN THE FIRST INSTANCE. HE ALSO EMPHASIZED ISRAEL'S NEED FOR FOREIGN INVESTMENT AND ASKED THE SECRETARY TO ENCOURAGE US INVESTMENT TO ISRAEL.

13. THE SECRETARY INITIATED HIS REMARKS BY NOTING THAT PEACE WAS THE ESENTIAL INGREDIENT FOR ENCOURAGING FOREIGN INVESTMENT INTO THE AREA. HE COULD ASSOCIATE HIMSELF COMPLETELY WITH THE FONMIN'S COMMENTS RE THE INTERRELATIONSHIPS BETWEEN POLITICS AND ECONOMICS ALONG THE ROAD TO PEACE. AS CONCERNS ALLON'S REMARKS CONCERNING EGYPTIAN PLANS FOR BOTH "GUNS AND BUTTER," THE SECRETARY THOUGH THE SITUATION IN EGYPT WAS MORE COMPLICATED THAN THE FONMIN DESCRIBED. HE NOTED THAT HE WAS NOT IN A POSITION TO MAKE FIRM PREDICTIONS IN REGARD TO EGYPT'S BEHAVIOR IN THE FUTURE, BUT HE BELIEVED THAT THE EGYPTIANS WERE SINCERE ABOUT THEIR DESIRE FOR ECONOMIC DEVELOPMENT AND, WEIGHING ALL THE FACTORS IN THE ECONOMIC SITUATION, HE BELIEVED THAT OVER ANY LONG-TERM PERIOD, THE EGYPTIANS WOULD FIND IT EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE, TO PAY FOR BOTH REQUIRED AND DESIRED ECONOMIC DEVELOPMMENT AND MASSIVE ARMS BUILDUP.

14. RETURNING TO THE REMARKS ON THE INTERRELATIONSHIPS OF POLITICS AND ECONOMICS, THE SECRETARY SAID HE WAS INTERESTED IN THE FONMIN'S COMMENTS CONCERNING THE POSSIBLE ROLE OF REGIONAL PROJECTS IN THE SEARCH FOR MID EAST PEACE. HE WAS NOT, HOWEVER, OPTIMISTIC THAT AT THIS TIME THE ARABS WOULD ACCEPT ISRAEL AS A REGIONAL PARTNER. HAVING SAID THIS, HOWEVER HE

CONFIDENTIAL

PAGE 03 TEL AV 04069 02 OF 02 191659Z

AGREED THAT WE SHOULD BE THINKING ABOUT THE MOST EFFECTIVE WAYS AND MEANS TO USE SUCH PROJECTS ON THAT HAPPY DAY WE FIND THE KEY WHICH WULD UNLOCK THE DOOR TO REGIONAL ECONOMIC COOPERATION.

15. ALLON THEN TURNED TO THE PALESTINIANS. BY A RATHER CIRCUITOUS ROTE (MENTION OF PLURALISTIC SOCIEITS, AND THE "HAPPY" ARAB/JEWISH EXPERIENCES IN COEXISTING ON THE WEST BANK SINCE '67). HE MADE THE POINT THAT ISRAEL WAS WILLING TO DO BUSINESS WITH THE PALESTINIANS, BUT COULD NOT BE EXPECTED TO NEGOTIATE WITH THE PLO AND ITS TERRORIST AFFILIATES. HE EXPLAINED THAT THESE WERE "SELF-APPOINTED" LEADERS OF THE

GREAT MASS OF PALESTINIANS WHO LIVED ON THE EAST BANK, THE WEST BANK, AND IN GAZA. HE DREW ATTENTION TO THE RECENT PALESTINIANS NATIONAL CONGRESS IN CAIRO WHICH APPROVED A PLATFORM ENDORSING THE USE OF ANY TERRITORY EVACUATED BY ISRAEL AS A BASE TO CONTINUE THE FIGHT FOR THE DETSTRUCTION OF ISRAEL (AND JORDAN). HE CONCLUDED BY NOTING THAT A DISTINCTION MUST BE RECOGNIZED BETWEEN "CONSTRUCTIVE PALESTINIANS" AND "OTHER," NOTING THAT A SOLUTION TO THE PALESTINIAN PROBLEM WOULD BE PEACE BETWEEN ISRAEL AND JORDAN.

16. ALLON THEN TURNED TO THE OIL SITUATION. HE STATED THAT AT THE BEGINNING OF THE OIL CRISIS, MANY WERE PRONE TO BLAME ISRAEL. IT IS CLEAR, HOWEVER, THAT ISRAEL COULD NOT BE BLAMED FOR THE CURRENT CRISIS OVER HIGHER PRICES. HE ASKED SECRETARY SIMON FOR HIS VIEWS ON THE CURRENT OIL SITUATION INCLUDING HOW THE ARABS WOULD PLAN TO INVEST THEIR HUGE FINANCIAL RESOURCES.

17. THE SECRETARY SUMMARIZED HIS VIEWS ON THE CURRENT PETROLEUM SITUATION, NOTING IN CONCLUSION THAT HE WAS HOPEFUL THAT, ON THE ASSUMPTION THAT CURRENT PRODUCTION WAS NOT CURTAILED, MARKET PRICES WOULD COME DOWN IN THE COMING MONTHS. AS CONCERNS INVESTMENT OF ARAB FUNDS, THE SECRETARY HATED THAT THIS SUBJECT HAD TO BE APPROACHED WITH EACH ARAB COUNTRY IN TERMS OF ITS ECONOMIC SELF INTEREST. IN GENERAL, HE WAS OPTIMISTIC THAT LARGE AMOUNTS OF ARAB FUNDS WOULD INITIALLY FLOW TO THE U.S. THE QUESTION OF RE-FLOW OF THESE FUNDS FROM THE U.S. INTO OTHER AREAS WAS A SUBJECT HE COULD FRANKLY NOT ADDRESS AT THIS POINT, NOTING THAT THIS REQUIRED VERY CAREFUL STUDY. CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TEL AV 04069 02 OF 02 191659Z

18. THE FONMIN EXPRESSED APPRECIATEION FOR HAVING THE OPPORTUNITY TO MEET WITH SECRETARY SIMON. HE REMARKED ON THE UNIQUE ROLE OF THE U.S. IN THE MID EAST WHICH WAS DIRECT RESULT OF OUR FRIENDSHIP BOTH WITH ISRAEL AND THE ARABS. HE DESCRIBED SECRETARY SIMON'S CURRENT TRIP AS ANOTHER MAJOR EXAMPLE OF THE SUCCESS OF U.S. POLICY. KEATING

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